

EDMONDS SCHOOL DISTRICT NO. 15
Snohomish County, Washington
September 1, 1991 Through August 31, 1992

Schedule Of Findings

1. Instructional Materials Should Not Be Purchased With Capital Project Funds Unless It Is For Initial Library, Text, And Reference Books For A New Building

District officials purchased \$528,385 of instructional material with money from the Capital Projects Fund. The instructional material was purchased to replace the old library, text, and reference books for three elementary schools which had been closed for a period of time and then reopened. The instructional material was not for a new building nor was it an initial (first time) purchase. The books were purchased with rental and lease revenues. Rental and lease revenues may be used for any legal purchase of the Capital Projects Fund.

RCW 28A.320.330 sets restrictions on Capital Project Fund expenditures and states in part:

Money legally deposited into the capital projects fund from other sources may be used for the purposes described in RCW 28A.530.010, and for the purposes of:

- (e) Purchases or installation of additional major items of equipment and furniture

Furthermore, *Washington Administrative Code* 392-123-010 states that the *Accounting Manual For Public School Districts of the State of Washington* shall govern the accounting procedures of each school district. The accounting manual states in Chapter V, page 4:

Expenditures for initial equipment for a new or remodeled building or a structure being converted from one use to another use are recorded in the Capital Projects Fund. Expenditures for initial equipment or the initial installation of built-in equipment in existing buildings are recorded under the Capital Projects Fund. Expenditures for repairs, and for replacements not discussed above are recorded under the General Fund

The accounting manual also provides under the definition of initial equipment that expenditures for the purchase of library, text and reference books may only be purchased with capital project funds if it is an initial expense for a new building. A new building is defined as a new construction or the purchase of an existing building.

District officials have a different interpretation of the above statute and the accounting manual and believe the purchase of \$528,385 to be proper.

We are of the opinion that the expenditure of capital project funds on instructional material for a renovated building is contrary to the above mentioned statute and accounting manual provisions.

We recommend district officials discontinue purchasing instructional materials for renovated buildings with capital project funds. We further recommend the Capital Projects Fund be reimbursed \$528,385 by the General Fund.

2. Payroll Charges To Chapter 1 Program Should Be Adequately Supported

As discussed in our 1991 audit report No. 54519, the Chapter 1 Program time and effort time studies were only performed three times during the 1991-92 school year, once in November, January, and April. The remainder of the year was based on the estimates from those three months. We also noted Chapter 1 teachers did not sign their time and effort reports, nor were they approved by their supervisors.

The Office of Management and Budget (OMB) Circular A-87 requires employees to fill out monthly reports reflecting the distribution of activity. The reports must be signed by the individual employee and by a responsible supervisory official having firsthand knowledge of the activities performed by the employee. OMB Circular A-87 further requires that charges to a program must be based on actual time spent and not budget estimates or based on a cost allocation plan which is preapproved by the grantor.

The absence of authenticated time reports has been brought to the attention of district officials during the course of previous audits.

Without adequate supporting documentation, it is not possible to ensure that the federal grant is appropriately charged for time actually spent on the grant.

We again recommend the charges to the Chapter 1 Program be based on actual time spent and not budget estimates or be based on a cost allocation plan which is preapproved by the grantor.

3. Accounting For Fixed Assets Should Be Improved

As discussed in our 1990 and 1991 audit reports Nos. 53466 and 54519, district officials have not developed an adequate system of controls over fixed assets. Material weaknesses were noted with the equipment component of the general fixed asset group. This component is comprised of district vehicles, other than buses, federally funded assets, and the furniture and equipment located throughout the district.

The following two problems were still noted:

- a. District officials have not taken a physical inventory of the district's assets on a regular basis.
- b. District officials do not maintain a comprehensive fixed asset detail ledger for all equipment. Although district tags identify some equipment, many items are not tagged or otherwise identified to ensure proper accountability. Federally funded asset ledgers are not being maintained by program directors.

In response to our prior year's three recommendations, district officials have addressed one and have developed procedures to ensure purchases and asset retirements are accounted for in district financial records.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments* published by the Office of Management and Budget (OMB) Subpart C, Paragraph 32, Section (d) Management Requirements states:

Procedures for managing equipment (including replacement equipment) whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

During the 1993 school year, district officials have provided adequate resources to begin developing accounting controls over the fixed assets.

However, as a result of the above conditions, we were unable to apply audit procedures to verify the validity of the equipment fixed asset balance.

We recommend that district officials continue to provide adequate resources to ensure that they are able to:

- a. Perform a comprehensive annual periodic physical inventory of fixed assets. The results of the physical inventory should be reconciled with the general fixed asset control records; all differences should be resolved. Equipment should be identified with property tags, the numbers of which are recorded in the property records.
- b. Establish and maintain comprehensive fixed assets accounting control records. Such records should document asset locations, location transfers, additions and retirements as they occur. Supporting documentation for all changes should be retained.